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UNCLAS SECTION 01 OF 02 ATHENS 001372

SIPDIS

STATE FOR EB/TRA, EUR/ERA, EUR/SE

E.O. 12958: N/A

TAGS: [EAIR](#) [ECON](#) [GR](#) [OLYAIR](#)

SUBJECT: EUROPEAN COURT RULES AGAINST OLYMPIC AIRLINES ON
ILLEGAL STATE AID

SENSITIVE BUT UNCLASSIFIED -- PLEASE HANDLE ACCORDINGLY

¶11. (SBU) SUMMARY: The May 12 decision of the European Court of Justice (ECJ) confirming the European Commission's position that the GoG's payment of 194 million euros to Olympic Airlines (OA) was an illegal subsidy does not appear to have altered the GoG's plan to sell the ailing national carrier. According to OA's management, the Commission and the GoG must now negotiate the details of how and when OA will return the 194 millions euros. One option is for the proceeds of the sale of certain elements of Olympic Airways (technical services and ground handling) to be used to repay the illegal subsidy. Within the next few weeks, the GoG will ask for the Commission's approval to continue the ongoing tenders for the sale of OA. According to OA officials, the ECJ's decision has made the need for the sale of Olympic Airlines that much more urgent. END SUMMARY.

ECJ'S DECISION

¶12. (U) On May 12 the European Court of Justice (ECJ) confirmed the European Commission's position that the GoG payment of 194 million euros to Olympic Airlines (OA) between 1998 and 2000 was an illegal subsidy. As a result, the ECJ has ordered OA to return this amount to the state's treasury.

The ECJ, however, did not set a specific timetable for the repayment and did not impose any additional fines (although the GoG must cover court costs).

¶13. (SBU) According to OA's Managing Director, Leonardos Vlamis, the ECJ decision was much better than expected. Now the Commission and the GoG must negotiate the details of how and when OA will return the 194 million euros. One option is for the proceeds of the sale of certain elements of Olympic Airways (technical services and ground handling) to be used to repay the illegal subsidy. Within the next few weeks, the GoG will ask for the Commission's approval to continue the ongoing tenders for the sale of OA's flying operations, technical services, and ground handling. If the Commission grants approval, then the tenders will continue as scheduled.

According to OA officials, the real impact of the court decision is that it increased the need and urgency for the sale of the airline. If privatization efforts fail once again, OA will have no choice but to liquidate some of its assets to recover the funds.

PRIVATIZATION EFFORTS CONTINUE

¶14. (U) The GoG is in the midst of its second attempt to sell Olympic Airlines following its 2003 restructuring and separation from Olympic Airways (and the fifth if one includes the GoG's attempts to sell the predecessor Olympic Airways). However, this new, slimmer, and ostensibly more efficient airline continues to have losses even after its separation from Olympic Airways -- 23 million euros in 2003 and reportedly much more in 2004 (official figures not yet available). Currently OA employs about 1,850 people and has a fleet of 36 airplanes of which 14 are Boeing 737-300s and -400s.

¶15. (U) On February 25 the Inter-ministerial Committee on Privatization (including the Ministers of Economy, Transportation, and Employment) approved a short-list of five bidders. The five bidders (the Greek private carrier Aegean Airlines, German budget carrier DBA, Britannia Aviation International Services, Greek-American Chrysler Aviation, and another Greek-American consortium) submitted binding offers for the purchase of OA last month. This tender process, however, was briefly suspended pending the ECJ's decision.

¶16. (SBU) COMMENT: Our contacts in the Transport Ministry and at Olympic Airlines are optimistic that the ECJ decision will not alter the GoG's plans to sell OA. They admit, however, that the decision may add an additional burden to the ongoing privatization. It is particularly interesting that the ECJ acknowledged the transfer of assets from the old Olympic Airways to the new Olympic Airlines has made it virtually impossible to recover the entirety of the funds. While the

ECJ meant this to be a criticism of the GoG's handling of this case, the practical effect may have been to strengthen the GoG's hand vis-a-vis the EC. The EC has always demanded that Olympic Airlines, as the flight operations company, bear the burden of repayment. The GoG is sure to raise the ECJ's point in order to shift the repayment burden to Olympic Airways, a company with considerably dimmer sale prospects.

END COMMENT.

Kaiser